

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

EXPERIMENTAL PRESORTED PRIORITY
MAIL RATE CATEGORIES, 2001

Docket No. MC2001-1

**REQUEST OF THE UNITED STATES POSTAL SERVICE
FOR A RECOMMENDED DECISION ON EXPERIMENTAL
PRESORTED PRIORITY MAIL RATE CATEGORIES**

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel

Richard T. Cooper
Michael T. Tidwell

And

Elinor G. Brown
(Paralegal Specialist)

March 7, 2001
475 L'Enfant Plaza West, S.W.
Room 6536
Washington, D.C. 20260-1137

Documents relating to this request may be served upon Mr. Foucheaux at the
above address.

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(March 7, 2001)**

Pursuant to chapter 36 of title 39, United States Code, the United States Postal Service has determined that an experimental change in the Domestic Mail Classification Schedule (DMCS) to establish rate categories and discounts for presorted Priority Mail would be in the public interest and in accordance with the policies and applicable criteria of that title. Accordingly, the Postal Service requests the Postal Rate Commission to submit to the Governors of the Postal Service a recommended decision which supports the implementation of the experimental change, as herein requested.

By designating this request as one which involves an experimental change, the Postal Service intends for the Commission to apply its expedited rules of practice and procedure for experimental changes, §§ 3001.67 - 3001.67d of title 39, Code of Federal Regulations. This case marks the eighth time the Postal Service has filed a case designated as experimental pursuant to 39 C.F.R. § 3001.67. See PRC Docket Nos. MC2000-2, MC2000-1, MC99-1, MC98-1, MC97-1, MC96-1, and MC86-1. Among

other purposes, the rules pertaining to experimental filings are designed to facilitate the Postal Service's compliance with its statutory duty to "plan, develop, promote, and provide adequate and efficient postal services," 39 U.S.C. § 403(a), by allowing it to expeditiously change classifications and rates as an experiment to test operational feasibility or customer response or other appropriate goals. The experimental rules also contemplate review of proposed experiments in the absence of historical cost, volume, revenue and other data that normally would underlie a request for a permanent change in mail classifications.

This filing is consistent with the logic of the experimental rules. In the absence of historical cost, volume and revenue data for discounts such as those now proposed,¹ a preliminary cost study has been prepared. During the term of the experiment, more complete data would be gathered with the potential for supporting a request to establish the change on a permanent basis. The preliminary cost analysis and the Postal Service's plans for the collection of additional data are described in the Direct Testimony of Jonathan D. Levine on Behalf of United States Postal Service, USPS-T-2.

The proposed experimental Priority Mail presort discounts are designed to recognize the apparent cost differentials associated with three different levels of presortation of Priority Mail and to encourage mailers to engage in work-sharing behavior when such behavior would be mutually advantageous to the customer and the Postal Service. See Direct Testimony of Thomas M. Scherer on Behalf of United States

¹ Although the Postal Service has, in the past, had some experience with a Priority Mail presort discount, that discount has not been in effect for over two years, and was different in structure from the discounts now being proposed.

Postal Service, USPS-T-1. The proposed service will be available for all Priority Mail prepared in a mailing of at least 300 pieces or at least 500 pounds that is presorted, marked, and presented as specified by the Postal Service, and which meets machinability, addressing, and other preparation requirements specified by the Postal Service.

Three categories of discounts are proposed, distinguished by depth of sort: ADC (Area Distribution Center), three-digit and 5-digit. The discounts proposed for the service – 12 cents per piece for sortation to ADC level, 16 cents per piece for sortation to 3-digit level, and 25 cents per piece for presortation to the 5-digit level, reflect the estimated costs avoided by the particular degree of worksharing performed by the mailer. The proposed discounted rate categories would be additional options offered to mailers; existing Priority Mail classifications and rates would remain unchanged.

In order to maintain consistency with the rates currently in effect, the cost avoidance measures underlying these proposals are estimated using the same cost base, including Test Year, as that underlying the Commission's Priority Mail rate recommendations in Docket No. R2000-1. For purposes of this proceeding, the Postal Service's proposals employ the Commission's costing methods, and are supported by the record in Docket No. R2000-1.² The cost avoidance calculations are shown in the

² The Postal Service's use, in this proceeding, of costing methods employed by the Commission in the most recent omnibus rate case is not intended to imply the Postal Service's agreement that the Commission's methods generate the most accurate cost estimates possible. The Postal Service reserves the right to contest particular costing methods in future cases and will continue to advocate improvements in the Commission's methods. For purposes of this case, however, the Commission's current methods are employed in order to place the proposed discounts on a consistent footing with the Priority Mail rates currently in effect, and to segregate from this proceeding

testimony of witness Levine (USPS-T-2). The ultimate determination of the size of the proposed discounts, including the selection of conservative cost pass-through percentages, is documented in the testimony of witness Scherer (USPS-T-1).

As demonstrated in the testimony of witness Scherer (USPS-T-1), the Postal Service's overall revenue position is unlikely to be significantly affected under the proposed experimental rate category. No capital investment will be required to initiate the service. The discounts selected are based on conservative cost avoidance estimates, and employ conservative pass-through percentages. Thus, the proposed experiment offers no appreciable risk of significant, negative financial results or harm to either the Postal Service, mailers using the service, or other mailers.

The Postal Service proposes that this experimental classification be in effect for three years. It is believed that this will allow mailers sufficient time to adjust their mailing practices to use the classification and will provide the Postal Service adequate time to aggregate and fully analyze data collected under the experiment so that a request for a permanent change in mail classification can be prepared, if the data are determined to support such a request. The Postal Service anticipates that such a filing would be made suitably in advance of the termination date for the experiment so that the permanent classification change, if eventually approved, could be implemented without any interruption, thus avoiding disruption to both mailers and the Postal Service.

The Postal Service believes that the classifications embodied in its proposed experiment will be attractive to mailers and will contribute to the long-term viability of the

costing inquiries that would be better pursued in a proceeding of greater scope.

postal system. Mailer interest in the proposed discounts is demonstrated in the testimony of Robert F. Kalenka on Behalf of United States Postal Service, USPS-T-3. Mr. Kalenka, Senior Vice President of ADP Financial Information Services, Inc., an investor communications firm in Edgewood, New York, supports the proposal as presenting additional options of value to mailers, and as a means for the Postal Service to retain Priority Mail volumes in the face of increasing competition.

Use of the more flexible and expedited procedures afforded by the experimental rules is appropriate for this proposal. The expedition allowed by the experimental rules is appropriate in light of the intense competition in the market for expedited delivery service, as indicated in the testimony of witness Kalenka. Flexibility is required because the detailed, conventional data necessary to support a request for a permanent classification change currently are unavailable. The unavailability of these data and the Postal Service's plans for collecting them are further explained in its testimony, its data collection plan (USPS-T-2, Attachment A), its Compliance Statement (Attachment F to this Request), and its Motion for Waiver of Portions of Rule 64, which accompanies this Request.

In accordance with the Commission's Rules of Practice and Procedure, the Postal Service submits herewith information and data which explain the nature and scope, significance, and effect of the proposed changes. The Postal Service's direct testimony accompanies this Request. The testimony and exhibits have been marked for identification as shown on Attachment E to this Request.


WHEREFORE, the Postal Service requests the Commission to recommend a decision in accordance with this Request.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


Richard T. Cooper

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March 7, 2001

ATTACHMENT A

PROPOSED CHANGES IN THE DOMESTIC MAIL CLASSIFICATION SCHEDULE

223 **Priority Mail Subclass**

223.1 **General.** The Priority Mail subclass consists of:

- a. First-Class Mail weighing more than 13 ounces; and
- b. Any mailable matter which, at the option of the mailer, is mailed for expeditious mailing and transportation.

223.2 **Single-Piece Priority Mail Rate Category.**

The single-piece Priority Mail rate category applies to Priority Mail subclass mail not mailed under section 223.3.

223.3 **Presorted Priority Mail Rate Categories.**

223.31 **General.** The presorted Priority Mail rate categories apply to Priority Mail subclass mail that:

- a. Is prepared in a mailing of at least 300 pieces or at least 500 pounds;
- b. Is presorted, marked, and presented as specified by the Postal Service; and
- c. Meets the machinability, addressing, and other preparation requirements specified by the Postal Service.

223.32 **ADC Rate Category.** The ADC rate category applies to Priority Mail presorted to single or multiple Area Distribution Center destinations as specified by the Postal Service.

223.33 **Three-Digit Rate Category.** The three-digit rate category applies to Priority Mail presorted to single or multiple three-digit ZIP Code destinations as specified by the Postal Service.

223.34 **Five-Digit Rate Category.** The five-digit rate category applies to Priority Mail presorted to single or multiple five-digit ZIP Code destinations as

specified by the Postal Service.

223.35 **Experimental Status.** The presorted Priority Mail rate categories established in this provision are scheduled to expire on _____.

223.4 [Reserved]

ATTACHMENT B

PROPOSED CHANGES IN THE RATE SCHEDULES

FIRST-CLASS MAIL SCHEDULE 223

PRIORITY MAIL SUBCLASS

(dollars)

| Weight not Exceeding (Pounds) | Zones L,1,2,3 | Zone 4 | Zone 5 | Zone 6 | Zone 7 | Zone 8 |
|-------------------------------------|------------------|--------|--------|--------|--------|--------|
| 1 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| 2 | 3.95 | 3.95 | 3.95 | 3.95 | 3.95 | 3.95 |
| 3 | 5.15 | 5.15 | 5.15 | 5.15 | 5.15 | 5.15 |
| 4 | 6.35 | 6.35 | 6.35 | 6.35 | 6.35 | 6.35 |
| 5 | 7.55 | 7.55 | 7.55 | 7.55 | 7.55 | 7.55 |
| 6 | 7.90 | 8.10 | 8.15 | 8.25 | 9.50 | 10.35 |
| 7 | 8.25 | 8.65 | 8.75 | 8.95 | 10.45 | 11.65 |
| 8 | 8.50 | 9.20 | 9.35 | 9.65 | 11.40 | 12.95 |
| 9 | 8.65 | 9.75 | 9.95 | 10.35 | 12.35 | 14.25 |
| 10 | 8.75 | 10.30 | 10.55 | 11.05 | 13.30 | 15.55 |
| 11 | 9.00 | 10.85 | 11.15 | 11.75 | 14.25 | 16.85 |
| 12 | 9.25 | 11.40 | 11.75 | 12.45 | 15.20 | 18.15 |
| 13 | 9.60 | 11.95 | 12.35 | 13.15 | 16.15 | 19.45 |
| 14 | 9.95 | 12.50 | 12.95 | 13.85 | 17.10 | 20.75 |
| 15 | 10.30 | 13.05 | 13.55 | 14.55 | 18.05 | 22.05 |
| 16 | 10.65 | 13.60 | 14.15 | 15.25 | 19.00 | 23.35 |
| 17 | 11.00 | 14.15 | 14.75 | 15.95 | 19.95 | 24.65 |
| 18 | 11.35 | 14.70 | 15.35 | 16.65 | 20.90 | 25.95 |
| 19 | 11.70 | 15.25 | 15.95 | 17.35 | 21.85 | 27.25 |
| 20 | 12.05 | 15.80 | 16.55 | 18.05 | 22.80 | 28.55 |
| 21 | 12.40 | 16.35 | 17.15 | 18.75 | 23.75 | 29.85 |
| 22 | 12.75 | 16.90 | 17.75 | 19.45 | 24.70 | 31.15 |
| 23 | 13.10 | 17.45 | 18.35 | 20.15 | 25.65 | 32.45 |
| 24 | 13.45 | 18.00 | 18.95 | 20.85 | 26.60 | 33.75 |
| 25 | 13.80 | 18.55 | 19.55 | 21.55 | 27.55 | 35.05 |
| 26 | 14.15 | 19.10 | 20.15 | 22.25 | 28.50 | 36.35 |
| 27 | 14.50 | 19.65 | 20.75 | 22.95 | 29.45 | 37.65 |
| 28 | 14.85 | 20.20 | 21.35 | 23.65 | 30.40 | 38.95 |
| 29 | 15.20 | 20.75 | 21.95 | 24.35 | 31.35 | 40.25 |
| 30 | 15.55 | 21.30 | 22.55 | 25.05 | 32.30 | 41.55 |
| 31 | 15.90 | 21.85 | 23.15 | 25.75 | 33.25 | 42.85 |
| 32 | 16.25 | 22.40 | 23.75 | 26.45 | 34.20 | 44.15 |
| 33 | 16.60 | 22.95 | 24.35 | 27.15 | 35.15 | 45.45 |
| 34 | 16.95 | 23.50 | 24.95 | 27.85 | 36.10 | 46.75 |
| 35 | 17.30 | 24.05 | 25.55 | 28.55 | 37.05 | 48.05 |
| 36 | 17.65 | 24.60 | 26.15 | 29.25 | 38.00 | 49.35 |
| 37 | 18.00 | 25.15 | 26.75 | 29.95 | 38.95 | 50.65 |
| 38 | 18.35 | 25.70 | 27.35 | 30.65 | 39.90 | 51.95 |

Revised 3/8/01

PRIORITY MAIL SUBCLASS (continued)
(dollars)

| Weight not Exceeding (Pounds) | Zones L,1,2,3 | Zone 4 | Zone 5 | Zone 6 | Zone 7 | Zone 8 |
|-------------------------------------|------------------|--------|--------|--------|--------|--------|
| 39 | 18.70 | 26.25 | 27.95 | 31.35 | 40.85 | 53.25 |
| 40 | 19.05 | 26.80 | 28.55 | 32.05 | 41.80 | 54.55 |
| 41 | 19.40 | 27.35 | 29.15 | 32.75 | 42.75 | 55.85 |
| 42 | 19.75 | 27.90 | 29.75 | 33.45 | 43.70 | 57.15 |
| 43 | 20.10 | 28.45 | 30.35 | 34.15 | 44.65 | 58.45 |
| 44 | 20.45 | 29.00 | 30.95 | 34.85 | 45.60 | 59.75 |
| 45 | 20.80 | 29.55 | 31.55 | 35.55 | 46.55 | 61.05 |
| 46 | 21.15 | 30.10 | 32.15 | 36.25 | 47.50 | 62.35 |
| 47 | 21.50 | 30.65 | 32.75 | 36.95 | 48.45 | 63.65 |
| 48 | 21.85 | 31.20 | 33.35 | 37.65 | 49.40 | 64.95 |
| 49 | 22.20 | 31.75 | 33.95 | 38.35 | 50.35 | 66.25 |
| 50 | 22.55 | 32.30 | 34.55 | 39.05 | 51.30 | 67.55 |
| 51 | 22.90 | 32.85 | 35.15 | 39.75 | 52.25 | 68.85 |
| 52 | 23.25 | 33.40 | 35.75 | 40.45 | 53.20 | 70.15 |
| 53 | 23.60 | 33.95 | 36.35 | 41.15 | 54.15 | 71.45 |
| 54 | 23.95 | 34.50 | 36.95 | 41.85 | 55.10 | 72.75 |
| 55 | 24.30 | 35.05 | 37.55 | 42.55 | 56.05 | 74.05 |
| 56 | 24.65 | 35.60 | 38.15 | 43.25 | 57.00 | 75.35 |
| 57 | 25.00 | 36.15 | 38.75 | 43.95 | 57.95 | 76.65 |
| 58 | 25.35 | 36.70 | 39.35 | 44.65 | 58.90 | 77.95 |
| 59 | 25.70 | 37.25 | 39.95 | 45.35 | 59.85 | 79.25 |
| 60 | 26.05 | 37.80 | 40.55 | 46.05 | 60.80 | 80.55 |
| 61 | 26.40 | 38.35 | 41.15 | 46.75 | 61.75 | 81.85 |
| 62 | 26.75 | 38.90 | 41.75 | 47.45 | 62.70 | 83.15 |
| 63 | 27.10 | 39.45 | 42.35 | 48.15 | 63.65 | 84.45 |
| 64 | 27.45 | 40.00 | 42.95 | 48.85 | 64.60 | 85.75 |
| 65 | 27.80 | 40.55 | 43.55 | 49.55 | 65.55 | 87.05 |
| 66 | 28.15 | 41.10 | 44.15 | 50.25 | 66.50 | 88.35 |
| 67 | 28.50 | 41.65 | 44.75 | 50.95 | 67.45 | 89.65 |
| 68 | 28.85 | 42.20 | 45.35 | 51.65 | 68.40 | 90.95 |
| 69 | 29.20 | 42.75 | 45.95 | 52.35 | 69.35 | 92.25 |
| 70 | 29.55 | 43.30 | 46.55 | 53.05 | 70.30 | 93.55 |

SCHEDULE 223 NOTES

1 The 2-pound rate is charged for matter sent in a 'flat rate' envelope provided by the Postal Service.

2 Add \$10.25 for each pickup stop.

3 EXCEPTION: Parcels weighing less than 15 pounds, measuring over 84 inches in length and girth combined, are chargeable with a minimum rate equal to that for a 15-pound parcel for the zone to which addressed

4 Pieces presented in mailings of at least 300 pieces or at least 500 pounds and meeting applicable Postal Service regulations for Priority Mail ADC, 3-digit and/or 5-digit discounts receive the applicable discounts of 12 , 16 or 25 cents per-piece, respectively (experimental).

ATTACHMENT C

CERTIFICATION

I, Jean Parris, Acting Manager, Cost and Rate Case Development, Finance, United States Postal Service, am familiar with the attached Request of the United States Postal Service for a Recommended Decision on Experimental Presorted Priority Mail Rate Categories together with the accompanying direct testimony and exhibits.

Pursuant to Rule 54(p) of the Postal Rate Commission's Rules of Practice and Procedure, 39 C.F.R. § 3001.54(p) (1998), I hereby certify that I have read the Request, that the cost statements and supporting data submitted as part of that Request, which purport to reflect the books of the Postal Service, accurately set forth the results shown by such books, and that, to the best of my knowledge, information, and belief, every statement contained in the Request is proper.



Jean D. Parris

ATTACHMENT D

AUDITED FINANCIAL STATEMENTS/CRA

Attached hereto are audited financial statements for Fiscal Years 1999 and 2000. The Cost and Revenue Analysis Reports for Fiscal Years 1998 and 1999 were previously filed with the Commission in Docket No. R2000-1. See, e.g., Docket No. R2000-1, USPS-LR-I-275.

UNITED STATES POSTAL SERVICE

Financial Statements

Years ended September 30, 2000 and 1999 with Report of Independent Auditors

United States Postal Service

Financial Statements

Years ended September 30, 2000 and 1999

Contents

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Report of Independent Auditors

Board of Governors
United States Postal Service

We have audited the accompanying balance sheets of the United States Postal Service as of September 30, 2000 and 1999, and the related statements of operations, changes in net capital deficiency and cash flows for each of the three years in the period ended September 30, 2000. These financial statements are the responsibility of the United States Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2000, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have issued our report dated November 10, 2000, on our consideration of the United States Postal Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audit.

Ernst & Young LLP

November 10, 2000

United States Postal Service

Balance Sheets

| | September 30, | |
|--|------------------------------|------------------------|
| | 2000 | 1999 |
| | <i>(dollars in millions)</i> | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents <i>(Note 2)</i> | \$ 683 | \$ 331 |
| Receivables: | | |
| Foreign countries | 349 | 337 |
| U.S. government | 134 | 149 |
| Consignment | 55 | 58 |
| Other | 158 | 147 |
| | <u>696</u> | <u>691</u> |
| Less allowances | 107 | 113 |
| Total receivables, net | <u>589</u> | <u>578</u> |
| Supplies, advances and prepayments | <u>383</u> | <u>387</u> |
| Total current assets | <u>1,655</u> | <u>1,296</u> |
| Other assets, principally revenue forgone appropriations receivable <i>(Note 7)</i> | 375 | 376 |
| Property and equipment, at cost: | | |
| Buildings | 17,685 | 16,513 |
| Equipment | 13,973 | 12,421 |
| Land | 2,534 | 2,407 |
| Leasehold improvements | 1,133 | 1,019 |
| | <u>35,325</u> | <u>32,360</u> |
| Less allowances for depreciation and amortization | <u>13,644</u> | <u>12,143</u> |
| | <u>21,681</u> | <u>20,217</u> |
| Construction in progress | <u>2,389</u> | <u>2,623</u> |
| Total property and equipment, net | <u>24,070</u> | <u>22,840</u> |
| Deferred retirement costs <i>(Note 6)</i> | 32,183 | 31,497 |
| Total assets | <u><u>\$58,283</u></u> | <u><u>\$56,009</u></u> |

See accompanying notes to the financial statements.

September 30,
2000 1999

(dollars in millions)

Liabilities and Net Capital Deficiency

Current liabilities:

Compensation and benefits \$ 5,295 \$ 5,919

Estimated prepaid postage 1,594 1,628

Payables and accrued expenses:

Foreign countries 439 527

U.S. government 150 164

Other 1,300 973

Total payables and accrued expenses 1,889 1,664

Prepaid box rentals, permit and metered mail 1,969 2,049

Outstanding postal money orders 716 813

Current portion of long-term debt 6,814 3,363

Total current liabilities **18,277 15,436**

Long-term debt, less current portion (Note 5) **2,502 3,554**

Other liabilities:

Amounts payable for deferred retirement benefits
(Note 6) 30,212 29,685

Workers' compensation costs (Note 2) 5,029 4,901

Employees' accumulated leave 2,090 2,041

Other 819 839

Total other liabilities **38,150 37,466**

Commitments and contingencies (Notes 8 and 9)

Total Liabilities **58,929 56,456**

Net capital deficiency:

Capital contributions of the U.S. government 3,034 3,034

Deficit since reorganization (3,680) (3,481)

Total Net Capital Deficiency **(646) (447)**

Total Liabilities and Net Capital Deficiency **\$58,283 \$56,009**

See accompanying notes to the financial statements.

United States Postal Service

Statements of Operations

| | Year ended September 30, | | |
|--|------------------------------|----------|----------|
| | 2000 | 1999 | 1998 |
| | <i>(dollars in millions)</i> | | |
| Operating revenue <i>(Note 7)</i> | \$64,540 | \$62,726 | \$60,072 |
| Operating expenses: | | | |
| Compensation and benefits <i>(Notes 2, 3, and 6)</i> | 49,532 | 47,333 | 45,596 |
| Transportation | 4,709 | 4,267 | 4,207 |
| Other | 8,751 | 9,042 | 7,983 |
| Total operating expenses | 62,992 | 60,642 | 57,786 |
| Income from operations | 1,548 | 2,084 | 2,286 |
| Interest and investment income | 41 | 29 | 44 |
| Interest expense on deferred retirement liabilities <i>(Note 6)</i> | (1,568) | (1,592) | (1,613) |
| Interest expense on borrowings | (220) | (158) | (167) |
| Net (Loss) Income | \$ (199) | \$ 363 | \$ 550 |

See accompanying notes to the financial statements.

United States Postal Service

Statements of Changes in Net Capital Deficiency

Years Ended September 30, 2000, 1999 and 1998

| | Capital Contributions of U.S. Government | Deficit Since Reorganization | Total Net Capital Deficiency |
|-----------------------------|---|---|---|
| | <i>(dollars in millions)</i> | | |
| Balance, September 30, 1997 | \$3,034 | \$(4,394) | \$(1,360) |
| Net Income | — | 550 | 550 |
| Balance, September 30, 1998 | 3,034 | (3,844) | (810) |
| Net Income | — | 363 | 363 |
| Balance, September 30, 1999 | 3,034 | (3,481) | (447) |
| Net Loss | — | (199) | (199) |
| Balance, September 30, 2000 | \$3,034 | \$(3,680) | \$ (646) |

See accompanying notes to the financial statements.

United States Postal Service

Statements of Cash Flows

| | Year ended September 30, | | |
|--|------------------------------|---------|---------|
| | 2000 | 1999 | 1998 |
| | <i>(dollars in millions)</i> | | |
| Cash flows from operating activities | | | |
| Net (loss) income | \$ (199) | \$ 363 | \$ 550 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 2,029 | 1,795 | 1,579 |
| (Gain) loss on disposals of property and equipment, net | (5) | (55) | 7 |
| Decrease (increase) in other assets, principally revenue forgone appropriations receivable | 1 | 3 | (7) |
| Increase in USPS workers' compensation | 254 | 19 | 195 |
| Decrease in Post Office Department workers' compensation | (17) | (21) | (27) |
| Decrease in retroactive assessments payable to the U.S. government | - | - | (331) |
| Increase in employees' accumulated leave | 49 | 82 | 101 |
| (Decrease) increase in other liabilities | (20) | 207 | 143 |
| Changes in current assets and liabilities: | | | |
| (Increase) decrease in receivables, net | (11) | 207 | (113) |
| Decrease (increase) in supplies, advances and prepayments | 4 | (39) | 40 |
| (Decrease) increase in compensation and benefits | (892) | 503 | 451 |
| Decrease in estimated prepaid postage | (34) | (45) | (70) |
| Increase (decrease) in payables and accrued expenses | 225 | (371) | (62) |
| (Decrease) increase in prepaid box rentals, permit and metered mail | (80) | 94 | 31 |
| (Decrease) increase in outstanding postal money orders | (97) | 121 | 52 |
| Net cash provided by operating activities | 1,207 | 2,863 | 2,539 |
| Cash flows from investing activities | | | |
| Purchase of U.S. government securities, available-for-sale | - | - | (620) |
| Proceeds from sale of U.S. government securities, available-for sale | - | - | 622 |
| Purchase of property and equipment | (3,337) | (3,917) | (3,055) |
| Proceeds from sale of property and equipment | 83 | 129 | 49 |
| Net cash used in investing activities | (3,254) | (3,788) | (3,004) |
| Cash flows from financing activities | | | |
| Issuance of debt | 5,550 | 4,129 | 5,696 |
| Payments on debt | (3,151) | (3,633) | (5,147) |
| Net cash provided by financing activities | 2,399 | 496 | 549 |
| Net increase (decrease) in cash and cash equivalents | 352 | (429) | 84 |
| Cash and cash equivalents at beginning of year | 331 | 760 | 676 |
| Cash and cash equivalents at end of year | \$ 683 | \$ 331 | \$ 760 |

See accompanying notes to the financial statements.

United States Postal Service
Notes to Financial Statements

September 30, 2000

1. Description of Business

Nature of Operations

The United States Postal Service (Postal Service) provides mail service to the public, offering a variety of classes of mail services without discrimination among its many customers. This means that within each class of mail our price does not vary by customer for the levels of service we provide. This fulfills our legal mandate to offer universal services at a fair price. Our primary lines of business are First Class Mail, Standard Mail (A) and Priority Mail. The principal markets for these services are the communications, distribution and delivery, advertising and retail markets. Our products are distributed through our more than 38,000 post offices and a large network of consignees. As in the past, we continue to conduct our significant operations primarily in the domestic market, with our international operations representing less than 3% of our total revenue.

Our labor force is primarily represented by the American Postal Workers Union, National Association of Letter Carriers, National Postal Mail Handlers Union and National Rural Letter Carriers Association. Almost 90% of our career employees are covered by collective bargaining agreements. Three of our largest contracts representing 61% of our career employees expire November 20, 2000. Negotiations have begun between management and unions, and agreements are expected during fiscal year 2001.

Postal Reorganization

The Postal Service commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act (the Act). The equity that the U.S. government held in the former Post Office Department became the initial capital of the Postal Service. The Postal Service valued the assets of the former Post Office Department at original cost less accumulated depreciation. The initial transfer of assets and subsequent cash contributions totaled approximately \$3 billion. The U.S. government remained responsible for all the liabilities attributable to operations of the former Post Office Department. However, under the Balanced Budget Act of 1997, the remaining liability for certain Post Office Department costs was transferred to the Postal Service.

1. Description of Business (continued)

Price Setting Process

Since 1971, the Act has required the Postal Service to establish prices that cover the costs of operating the postal system. The Act established the independent Postal Rate Commission with oversight responsibility for mail prices, subject to approval by the Governors of the Postal Service. The Act provides for the recovery of operating losses through future rate increases.

2. Summary of Significant Accounting Policies

Basis of Accounting and Use of Estimates

We maintain our accounting records and prepare our financial statements on the accrual basis of accounting. This basis conforms to accounting principles generally accepted in the United States. Following these principles, we made estimates and assumptions that affect the amounts reported in the financial statements and notes. Actual results may differ from our estimates.

Cash Equivalents

Cash equivalents are securities that mature within 90 days or less from the date we buy them.

Current Values of Financial Instruments

The current value of our debt is what it would cost us to pay off the debt if we used the current yield on equivalent U.S. Treasury debt.

Supplies, Advances and Prepayments

Supplies, advances and prepayments are primarily composed of our inventories of supplies, motor vehicle parts, repairable parts for mail processing equipment, and advances to employees for annual leave. We value our inventories at the lower of average cost or current market price. Total inventories amounted to \$173 million at the end of 2000 and \$172 million at the end of 1999.

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

We record property and equipment at what it costs us to acquire the assets, including the interest we pay on the money we borrow to pay for the construction of major capital additions. This interest amounted to \$49 million in 2000, \$59 million in 1999 and \$44 million in 1998.

We depreciate buildings and equipment over their estimated useful lives, which range from 3 to 40 years, using the straight-line method. We amortize leasehold improvements over the period of the lease or the useful life of the improvement, whichever time is shorter.

Estimated Prepaid Postage

This is the amount of cash we estimate that we collected by the end of the year for services that we will perform in the following year.

Compensation and Benefits Payable

This is the salaries and benefits we owe to current and retired employees, including the amounts employees have earned but have not yet been paid, current workers' compensation, unemployment costs, health benefits, and the current portion of the amounts payable for retirement benefits.

Deferred Retirement Benefits and Costs

This is the present value of our estimated legal obligation to the Civil Service Retirement and Disability Fund for the amount of retirement benefits payable in the future for our current employees' retirement and our present retirees and their survivors. The present value of our benefits payable for our current employees increases when management increases basic pay. The present value of our benefits payable also increases when Cost of Living Adjustments (COLAs) are granted to our retirees or their survivors. We capitalize as deferred retirement costs the amounts due and payable in future years. We expense and pay these costs over periods of 30 years for amounts attributable to current employees and 15 years for amounts attributable to retirees, at 5% interest. We account for our participation in the U.S. government sponsored retirement plans as participation in a multi-employer plan arrangement.

2. Summary of Significant Accounting Policies (continued)

Post-Retirement Health Benefits

Retiree health benefits costs are our obligation to pay a portion of the health insurance premiums of those retirees and their survivors who participate in the Federal Employees Health Benefits Program (FEHBP). We account for our participation in FEHBP as participation in a multi-employer plan arrangement. Therefore, we expense the costs of our retiree health benefits as we incur them.

Workers' Compensation Costs

We are self-insured for workers' compensation costs under a program administered by the Department of Labor (DOL). We record these costs, which include the employees' medical expenses and payment for continuation of wages, as an operating expense. At the end of the year, our liability represents the estimated present value of the total amounts we expect to pay in the future for postal workers injured through the end of fiscal year 2000. We base our estimate of the total costs of a claim upon the severity of the injury, the age of the injured employee, the assumed life expectancy of the employee, the trend of our experience with such an injury, and other factors. In our calculation of present value, we use a net discount rate of 1.4% for medical expenses and 3.0% for compensation claims.

In fiscal year 1999, we changed the net discount rate used in determining the present value of estimated future workers' compensation payments for medical claims. The net discount rate for medical claims was changed from 0.1% to 1.4%. The effect of the adoption of this rate has been accounted for as a change in accounting estimate. It resulted in a decrease of \$131 million in the fiscal year 1999 compensation and benefits expense. In management's opinion, this net discount rate better reflects the excess of rates of return on government debt instruments of comparable terms relative to expected future medical inflation.

In fiscal year 2000, we refined our methodology used to estimate the present value of the total amounts we expect to pay for current Postal Service workers' compensation claims. The major refinement is the use of a life table that reflects long-term experience with a disabled population to estimate mortality rates of our permanently disabled population. Previously, we had used a life table that reflected experience with the general United States population. In management's opinion, the refinements result in a better estimation of our liability for future outlays on behalf of Postal Service workers' compensation claimants. The effect of the refinements was a reduction of \$423 million in the fiscal year 2000 compensation and benefits expense.

2. Summary of Significant Accounting Policies (continued)

Workers' Compensation Costs (continued)

At the end of 2000, we estimate our total liability for future workers' compensation costs, excluding Post Office Department (POD) liability, at \$5,560 million. At the end of 1999, this liability was \$5,306 million. In 2000, we recorded \$911 million in workers' compensation expense, compared to the \$603 million we recorded in 1999 and the \$760 million we recorded in 1998. Our liability for future workers' compensation costs for POD claims was \$193 million in 2000 and \$210 million in 1999. In 2000, we recorded an expense of \$14 million, compared to the \$11 million we recorded in 1999 and \$8 million in 1998.

Research and Development Costs

We record research and development costs as expenses when we incur them. These costs were \$42 million in 2000, \$67 million in 1999 and \$77 million in 1998.

Advertising

We record advertising costs as expenses when we incur them. These costs were \$151 million in 2000, \$241 million in 1999 and \$301 million in 1998.

Reclassification of Prior Years Amounts

Certain prior years amounts have been reclassified to conform to the 2000 presentation.

3. Post-Retirement Health Benefit Programs

Employees of the Postal Service who participate in the Federal Employees Health Benefits Program (FEHBP) for at least the five years immediately before their retirement may participate in the FEHBP during their retirement. Under the FEHBP, we pay a portion of the health insurance premiums of participating retirees and their survivors. This program is administered by the Office of Personnel Management.

The Omnibus Budget Reconciliation Act of 1990 requires us to pay the employer's share of health insurance premiums for all employees, and their survivors, who participate in the FEHBP and who retire on or after July 1, 1971. However, we do not include the costs attributable to Federal civilian service before that date. Our FEHBP costs amounted to \$744 million in 2000, \$593 million in 1999, and \$581 million in 1998. We include these costs in our compensation and benefits expense.

4. Impaired Assets

In 1997, we began to record losses on long-lived assets when events and circumstances indicate that the assets might be impaired. In accordance with FASB Statement No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of," we have written down our impaired assets to the lower of cost or fair value. No material impairments were recorded in 2000, 1999 and 1998.

5. Debt and Related Interest Costs

Under the Postal Reorganization Act, as amended by Public Law 101-227, we can issue debt obligations. However, we are limited to net annual increases of \$2 billion in our debt for capital improvements and to \$1 billion for operating expenses. Our total debt cannot exceed \$15 billion.

Debt is due as follows (dollars in millions):

| Year | Amount |
|------------|---------|
| 2001 | \$6.814 |
| 2002 | — |
| 2003 | 200 |
| 2004 | — |
| 2005 | — |
| After 2005 | 2.302 |

We paid in cash \$263 million in interest in 2000, \$202 million in interest in 1999 and \$236 million in 1998.

The current estimated market value of our debt is \$9.316 million in 2000 and \$6.877 million in 1999 (Note 2). All notes payable to the Federal Financing Bank (FFB) may be repurchased at current value at any time with five days notice of intent to do so.

The following page details our debt, which consists of Notes Payable to the FFB and Mortgage Notes Payable.

5. Debt and Related Interest Costs (continued)

Our debt consists of the following:

| Interest Rate % | Terms* | September 30, 20001999 | |
|--|--|---------------------------|---------|
| (dollars in millions) | | | |
| Notes Payable to the Federal Financing Bank (FFB): | | | |
| 8.075 | Payable \$32 million each year to May 31, 2000 | \$ — | \$ 32 |
| 7.800 | Payable \$15 million each year to May 31, 2001 | 15 | 30 |
| 8.760 ** | Payable \$36 million each year to May 31, 2001 | 36 | 72 |
| 6.274 | Payable May 16, 2005 | — | 500 |
| 6.350 *** | Overnight revolving credit facility; final maturity date October 2, 2000 | 262 | 279 |
| 5.084 | Payable March 30, 2000 | — | 500 |
| 4.977 | Payable March 31, 2034; repurchasable at par December 31, 1999 and every March 31, June 30, September 30, and December 31 thereafter | — | 750 |
| 6.323 **** | Short-term revolving credit facility; final maturity date October 2, 2000 | 3,400 | 2,500 |
| 6.323 | Payable August 31, 2001; repurchasable at par November 30, 2000; February 28, and May 31, 2001 | 1,000 | — |
| 6.323 | Payable December 28, 2000 | 800 | — |
| 6.333 | Payable March 1, 2001 | 500 | — |
| 6.183 | Payable May 31, 2001 | 800 | — |
| 5.568 | Payable December 31, 2002 | 200 | 200 |
| 5.688 | Payable August 15, 2007 | 400 | 400 |
| 5.546 | Payable August 15, 2007 | 150 | 150 |
| 5.959 | Payable November 15, 2027 | 400 | 400 |
| 5.726 | Payable November 15, 2027 | 100 | 100 |
| 5.606 | Payable November 15, 2027 | 300 | 300 |
| 5.426 | Payable May 15, 2008 | 200 | 200 |
| 4.981 | Payable May 15, 2008 | 200 | 200 |
| 4.910 | Payable May 15, 2008 | 200 | 200 |
| 4.836 | Payable November 15, 2027 | 100 | 100 |
| 6.299 | Payable May 15, 2030 | 250 | — |
| | | 9,313 | 6,913 |
| Mortgage Notes Payable: | | | |
| 5.00 to | Maturing from fiscal years 2001 through 2039 | | |
| 9.25 | secured by land, buildings and equipment with a carrying amount of \$31 million. | | |
| | | 3 | 4 |
| | | 9,316 | 6,917 |
| Less current portion of debt | | 6,814 | 3,363 |
| | | \$2,502 | \$3,554 |

- * All debt is repurchasable at any time at a price determined by then current FFB rates.
- ** Weighted average interest rate; prior year's weighted average interest rate was 8.761%.
- *** Prior year rate was 5.002%.
- **** Prior year rate was 4.971%.

6. Retirement Programs

With certain exceptions, employees participate in one of the following three retirement programs based upon the starting date of their employment with the Postal Service. Employee and employer contributions are made to the Civil Service Retirement and Disability Fund (CSRDF), which is administered by the Office of Personnel Management. Employees may also participate in the Thrift Savings Plan, which is a defined contribution retirement savings and investment plan. Postal Service employees are authorized to participate in the Thrift Savings Plan by the Federal Employees Retirement System Act of 1986. The Plan is administered by the Federal Retirement Thrift Investment Board.

Civil Service Retirement System (CSRS)

Under the Postal Reorganization Act, officers and career employees are covered by the Civil Service Retirement System, which provides a basic annuity and Medicare coverage. The CSRS fund covers substantially all employees hired prior to January 1, 1984. Effective January 1, 2000, participating employees contribute 7.4% of their basic pay to the CSRDF. Effective January 1, 1999, participating employees contributed 7.25% of their basic pay. Prior to January 1, 1999, participating employees contributed 7% of their basic pay. We contribute an amount equal to 7% of each employee's basic pay to the CSRDF. We and the employee also contribute to Medicare at the rate prescribed by law. We do not match contributions to the Thrift Savings Plan for employees who participate in the CSRS.

Dual Civil Service Retirement System (Dual CSRS)/Social Security System

Employees with prior U.S. government service who were hired between January 1, 1984 and January 1, 1987 are covered by the Dual Civil Service Retirement System/Social Security System. We contribute 7% of the employee's basic pay to the CSRDF. Effective January 1, 2000, participating employees contribute 1.20% of their basic pay. Effective January 1, 1999, participating employees contributed 1.05% of their basic pay. Prior to January 1, 1999, participating employees contributed 0.8% of their basic pay. We and the employee also contribute to Social Security and Medicare at the rates prescribed by law. We do not match contributions to the Thrift Savings Plan for employees who participate in the Dual System.

6. Retirement Programs (continued)

Federal Employees Retirement System (FERS)

Effective January 1, 1987, officers and career employees hired since December 31, 1983, except for those covered by the Dual System, are covered by the Federal Employees Retirement System Act of 1986. In addition, employees hired before January 1, 1984 could choose during certain periods in 1987, 1988 and 1998 to participate in the FERS. This System consists of Social Security, a basic annuity plan, and a Thrift Savings Plan.

We contributed to the basic annuity plan 10.7% of each employee's basic pay in 2000, 1999 and 1998. Effective January 1, 2000, participating employees contribute 1.20% of their basic pay. Effective January 1, 1999, participating employees contributed 1.05% of their basic pay. Prior to January 1, 1999, participating employees contributed 0.8% of their basic pay. We and the employee also contribute to Social Security and Medicare at the rates prescribed by law. In addition, we are required to contribute to the Thrift Savings Plan a minimum of 1% per year of the basic pay of employees covered by this System. We also match a voluntary employee contribution up to 3% of the employee's basic pay, and 50% of a contribution between 3 and 5% of basic pay.

The number of employees enrolled in each of the retirement plans at the end of 2000, 1999 and 1998 is as follows:

| | 2000 | 1999* | 1998 |
|---------------------------|---------|---------|---------|
| CSRS | 263,383 | 281,062 | 298,827 |
| Dual CSRS/Social Security | 12,021 | 12,598 | 13,418 |
| FERS | 510,509 | 503,233 | 479,069 |

* From July 1998 to December 1998, workers covered by CSRS were allowed to switch to FERS. During this period only 3,436, or less than 1.2%, of our employees chose to change plans.

Deferred Retirement Costs

Deferred retirement costs consist of the following (dollars in millions):

| | 2000 | 1999 |
|--|-----------------|-----------------|
| CSRS basic pay increases | \$25,857 | \$25,545 |
| CSRS retirees' and survivors' cost of living adjustments | 6,326 | 5,952 |
| Total | <u>\$32,183</u> | <u>\$31,497</u> |

There are no deferred retirement costs associated with FERS.

6. Retirement Programs (continued)

Deferred Retirement Liability—Civil Service Retirement System

When we increase CSRS employees' current basic pay, we are liable for the additional deferred retirement liability. The Office of Personnel Management determines the estimated increase in our deferred liability. We amortize and pay this amount in 30 equal annual installments, which includes interest computed at a rate of 5% per year. We make the first payment at the end of the year in which employees receive their pay increase.

The increase in our deferred liability for retirement benefits under the CSRS as a result of basic pay increases was \$1,635 million in 2000, \$930 million in 1999 and \$836 million in 1998.

Deferred Retirement Liability—Retirees' and their Survivors' Cost of Living Adjustments (COLAs)

Congress determines the COLAs granted to our retirees. Under the Omnibus Budget Reconciliation Act of 1990, we are liable for our share of the cost of living adjustments granted to those retirees, and their survivors, retiring on or after July 1, 1971. We are not responsible for any costs due to federal civilian service before that date.

Each year the Office of Personnel Management determines the estimated increase in our liability under this law for the current year. We amortize and pay each year's amount in 15 equal annual installments, which include interest computed at a rate of 5% per year.

The increase in our deferred liability for our retirees' COLAs was \$1,056 million in 2000, \$537 million in 1999 and \$790 million in 1998.

Future Minimum Payments

We estimate the future minimum payments we have to make in order to fund CSRS benefits and retirees' cost of living adjustments as of September 30, 2000 are as follows (dollars in millions):

6. Retirement Programs (continued)

Future Minimum Payments (continued)

| Year | Amount |
|--|-----------------|
| 2001 | \$ 3,580 |
| 2002 | 3,508 |
| 2003 | 3,429 |
| 2004 | 3,308 |
| 2005 | 3,218 |
| After 2005 | <u>31,630</u> |
| | \$48,673 |
| Less amount representing interest | <u>16,485</u> |
| Total future minimum payments | \$32,188 |
| Less: Portion classified as a current liability in compensation and benefits | 1,976 |
| Long-term portion of future minimum payments | <u>\$30,212</u> |

Expense Components

Listed below are the components of our total retirement expenses that are included in our compensation and benefits expense and related interest expense in the Statement of Operations for 2000, 1999 and 1998 (dollars in millions):

| | 2000 | 1999 | 1998 |
|--|----------------|----------------|----------------|
| CSRS | \$ 800 | \$ 816 | \$ 849 |
| FERS | 1,944 | 1,824 | 1,640 |
| FERS—Thrift Savings Plan | 750 | 681 | 608 |
| Dual CSRS/Social Security | 35 | 35 | 36 |
| Social Security | 1,427 | 1,337 | 1,241 |
| Amortization of deferred cost: | | | |
| CSRS | 1,322 | 1,214 | 1,142 |
| Annuitant COLAs | 683 | 602 | 569 |
| Interest expense on deferred liabilities | 1,568 | 1,592 | 1,613 |
| Total retirement expense | <u>\$8,529</u> | <u>\$8,101</u> | <u>\$7,698</u> |

6. Retirement Programs (continued)

Expense Components (continued)

Employer cash contributions to retirement plans were \$7,084 million in 2000, \$6,756 million in 1999 and \$6,647 million in 1998. These amounts do not include Social Security and Medicare contributions.

7. Revenue Forgone

Our operating revenue includes accruals for revenue forgone. Revenue is forgone when Congress mandates that we provide free or reduced mail rates for certain mailers. The difference between the price Congress has mandated and the price we would have charged the mailer determines the amount of forgone revenue. Congress appropriates money to reimburse us for only a portion of the revenue forgone that we have incurred in past years. In our operating revenue, we have included as revenue the amounts appropriated by Congress for revenue forgone of \$64 million for 2000, \$71 million for 1999, and \$67 million for 1998. Legislation that was passed during 2000 appropriated the \$64 million for 2000 but delayed the payment until fiscal year 2001. Accordingly, we have recorded this as a receivable.

Under the Revenue Forgone Reform Act of 1993, Congress is required to reimburse us \$29 million annually through 2035 (42 years). This reimbursement is for two purposes: services we performed in 1991, 1992 and 1993 for which we have not yet been paid; and for shortfalls in the reimbursement for the costs we incurred for processing and delivering certain nonprofit mail from 1994 through 1998.

The Revenue Forgone Reform Act of 1993 authorized a total of \$1.218 billion in payments. We calculated the present value of these future reimbursements to be approximately \$390 million at 7% interest. We recognized the \$390 million as revenue during fiscal years 1991 through 1998. The amounts receivable as of September 30, 2000 and 1999 were \$375 million and \$378 million, respectively. We recognized no revenue in 2000 and 1999 and \$10 million in 1998.

8. Commitments

At September 30, 2000, we estimate our financial commitment for approved Postal Service capital projects in progress to be approximately \$3.641 million.

8. Commitments (continued)

In addition, we are in negotiations for the buy out of certain assets and leases associated with the processing and transportation of Priority Mail.

Our total rental expense for the years ended September 30 is summarized as follows (dollars in millions):

| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|--|----------------|----------------|--------------|
| Non-cancelable real estate leases including related taxes | \$ 806 | \$ 766 | \$711 |
| Facilities leased from General Services Administration subject to 120-day notice of cancellation | 39 | 36 | 37 |
| Equipment and other short-term rentals | 254 | 431 | 234 |
| Total | <u>\$1,099</u> | <u>\$1,233</u> | <u>\$982</u> |

At September 30, 2000, our future minimum lease payments for all non-cancelable leases are as follows (dollars in millions):

| <u>Year</u> | <u>Operating</u> | <u>Capital</u> |
|--|------------------|----------------|
| 2001 | \$ 755 | \$ 83 |
| 2002 | 722 | 83 |
| 2003 | 682 | 83 |
| 2004 | 643 | 83 |
| 2005 | 593 | 83 |
| After 2005 | 5,641 | 531 |
| | <u>\$9,036</u> | <u>\$946</u> |
| Less: Interest at 6.5% | | 279 |
| Total capital lease obligations | | <u>667</u> |
| Less: Short-term portion of capital lease obligations | | 41 |
| Long-term portion of capital lease obligations | | <u>\$626</u> |

Most of these leases contain renewal options for periods ranging from 3 to 20 years. Certain non-cancelable real estate leases give us the option to purchase the facilities at prices specified in the leases.

8. Commitments (continued)

Capital leases included in buildings were \$772 million in 2000 and \$663 million in 1999. Total accumulated amortization is \$161 million in 2000 and \$122 million in 1999. Amortization expense for assets recorded under capital leases is included in depreciation expense.

9. Contingent Liabilities

Each quarter we review litigation pending against us. As a result of this review, we classify and adjust our contingencies for claims that we think it is probable that we will lose and for which we can reasonably estimate the amount of the unfavorable outcome. These claims cover labor, equal employment opportunity, environmental issues, traffic accidents, injuries on postal properties, personal claims and property damages, and suits and claims arising from postal contracts. We also recognize the settlement of claims and lawsuits and revisions of other estimates. Additionally, we evaluate the materiality of cases determined to have a reasonably possible chance of adverse outcome. Such cases are immaterial to our financial statements taken as a whole.

As a part of our continuing evaluation of estimates required in the preparation of our financial statements, we recorded approximately a \$63 million increase in liabilities in 2000 to recognize changes in the estimated cost of litigation and claims asserted prior to 2000. We recognized settlements of claims and lawsuits and revised other estimates in our changes in contingent liabilities. Management and General Counsel believe that we have made adequate provision for the amounts that may become due under the suits, claims, and proceedings we have discussed here.

ATTACHMENT E

INDEX OF TESTIMONY, EXHIBITS, WORKPAPERS AND RELATED LIBRARY REFERENCES

Witness: Thomas M. Scherer
Testimony: USPS-T-1
Exhibits: None
Workpapers: None
Related Library References: None
Attorney: Richard T. Cooper (202) 268-2993

Witness: Jonathan D. Levine
Testimony: USPS-T-2
Exhibits: None
Workpapers: None
Related Library References: USPS-LR-MC2001-1/1
Attorney: Michael T. Tidwell (202) 268-2998

Witness: Robert F. Kalenka
Testimony: USPS-T-3
Exhibits: None
Workpapers: None
Related Library References: None
Attorney: Richard T. Cooper (202) 268-2993

ATTACHMENT F

COMPLIANCE STATEMENT

ATTACHMENT F
COMPLIANCE STATEMENT

This Attachment contains a statement of the manner in which the Postal Service has supplied the information requested in sections 54, 64, and 67 of the Commission's Rules of Practice and Procedure, 39 C.F.R. §§ 3001.54, 3001.64, and 3001.67. Where requested information is not included in direct testimony or exhibits of the Postal Service's witnesses, it is contained in the Request or in other Attachments to the Request, or has been incorporated by reference in the testimony, exhibits, Request, or attachments made available to the Commission in Docket No. R2000-1.

RULE: 64(b)(1), (2), (3), (4)

INFORMATION REQUESTED:

These subsections request, for every classification change proposed:

- (1) copies of the currently-effective Domestic Mail Classification Schedule and the proposed changes thereto;
- (2) specification of the rules, regulations and practices that establish the conditions of mailability and standards of service;
- (3) a statement of the degree of economic substitutability between the various classes and subclasses; and
- (4) an identification of all nonpostal services.

1. *Present and Proposed Classification Schedule and Rate and Fee Schedule Provisions.*

Attachment A contains the affected provision(s) of the Domestic Mail Classification Schedule, with the proposed additions underlined. Attachment B contains the affected rate schedule, with the proposed rates underlined.

2. *Rules, Regulations and Practices that Establish Conditions of Mailability and Standards of Service.*

The Postal Service's current rules and regulations that specifically govern the provision of domestic mail services are published in the Domestic Mail Manual, which is incorporated by reference in the Code of Federal Regulations, 39 C.F.R. § 111, and incorporated here by reference. The Postal Service will promulgate rules and regulations consistent with the proposed experimental classification, and rate and fee schedule changes pursuant to its statutory authority. See 39 U.S.C. § 401(2).

3. *Degrees of Economic Substitutability.*

The proposed implementation of discounts for Priority Mail pieces that are presorted to ADC, 3-digit, and 5-digit levels is not expected to have any significant effect on existing substitutability between the various classes and subclasses of mail. A motion to waive any remaining requirements of this rule, insofar as they apply to this proposal, is being filed with the Request. Data to develop elasticity estimates are not available.

4. *Identification of nonpostal services.*

No nonpostal services pertain to the proposed rate change. Nonpostal services include: alien registration, sale of philatelic products, sale of food stamps, sale of passports, sale of migratory-bird hunting and conservation stamps, sale of miscellaneous products, Mailgram,¹ photocopy service, vending stands and vending machines, postmasters in Alaska serving as notaries public, and post office assistance to the Office of Personnel Management and the Selective Service System. From time to time, the Postal Service may offer other nonpostal services. Some of these nonpostal services may be provided on a limited or trial basis.

^{1/} Although not a service, Mailgram is included here in recognition of its nonpostal nature.

RULE: 64(c)(1), (2), (3)

INFORMATION REQUESTED:

This rule asks for information regarding the users of the Postal Service, the nature of the items mailed and the methods of mailing used. Specifically, this section requests the following:

- (1) an identification of the characteristics of the mailer and the recipient, and a description the contents of items mailed within each class and subclass;
 - (2) identification of the physical attributes of the items mailed by class and subclass, including shape, weight and distance; and
 - (3) to the extent it is not provided under paragraph (b)(2), a summary statement that describes special service arrangements provided to, or requested or required of, mailers by the Postal Service that affect the cost of service or its value to the mailer or recipient.
1. *Characteristics of the mailer, recipient, and the content of items mailed.*

The testimonies of witnesses Levine (USPS-T-2) and Scherer (USPS-T-1) provide some information responsive to this subsection with respect to Presorted Priority Mail discounts. Information pertinent to this and other subclasses is provided in the response to this rule in the Request filed in Docket No. R2000-1 and in the Commission's Opinion and Recommended Decision in Docket No. R2000-1, incorporated here by reference.

2. *Physical attributes of the items mailed by class and subclass.*

Information pertaining to the physical attributes of Presorted Priority Mail is provided in the testimony of witness Scherer (USPS-T-1). Information pertinent to other subclasses is provided in the response to this rule in Docket No. R2000-1 and in the Commission's Opinion and Recommended Decision in Docket No. R2000-1, incorporated here by reference.

3. *Summary statement of special service arrangements.*

The qualification requirements for Presorted Priority Mail discounts are described in the testimony of witness Scherer (USPS-T-1). Information pertinent to other subclasses is provided in the response to this rule in Docket No. R2000-1, in the Commission's Opinion and Recommended Decision in Docket No. R2000-1, and in the *Domestic Mail Manual*, which are incorporated here by reference.

RULE: 64(d)

INFORMATION REQUESTED:

This rule requests that the effects of the change on cost assignments, total costs, and total revenues be provided, both before and after the change.

The testimony of witnesses Levine (USPS-T-2) and Scherer (USPS-T-1) provide some information responsive to this subsection with respect to Presorted Priority Mail rate. With respect to the effects of changes on cost assignments, total costs and total revenues, however, a motion to waive the requirements of this rule, insofar as they apply to this proposal, is being filed with the Request. Because of the experimental nature of the service being proposed and its relatively small effect, the Postal Service has not prepared a full analysis of the effects on the Postal Service's cost assignments, total costs and total revenues, either in the present fiscal year or a "rollforward" analysis in a future test year.

RULE: 64(e)

INFORMATION REQUESTED:

This subsection requires that, whenever the Postal Service proposes to reassign a portion of one existing class or subclass of mail or service to another existing class or subclass of mail or service, the request must include a comparison of the before and after costs and revenues of handling the relevant classes or subclasses, and before and after costs and revenues of the portion that is to be reassigned.

This rule does not apply to this request because the Postal Service is not proposing that a portion of one existing class or subclass of mail or service be reassigned to another existing class or subclass of mail or service.

RULE: 64(f)

INFORMATION REQUESTED:

This rule requires that the Postal Service provide a complete statement of the reasons and bases for the proposed changes.

The testimonies of witnesses Scherer (USPS-T-1), Levine (USPS-T-2) and Kalenka (USPS-T-3) provide the reasons and bases for the proposed experimental classification.

RULE: 64(g)

INFORMATION REQUESTED:

This rule sets forth the requested format and filing requisites for workpapers.

Calculations of costs and revenues with respect to Presorted Priority Mail rate are in the testimonies and exhibits of witnesses Levine (USPS-T-2) and Scherer (USPS-T-1) in the instant docket. The Postal Service is not filing workpapers with this Request.

RULE: 64(h)

INFORMATION REQUESTED:

This rule calls for compliance with subsections (b) through (h), (j) through (l) and (o) through (p) of Rule 54, together with statements responsive to paragraphs (q) and (r) of Rule 54, when the Postal Service proposes a change in the mail classification schedule having a rate, fee or total cost change implication.

The Rule 54 compliance statements, which include the response to this requirement, are incorporated here by reference. Other pertinent information is provided in the response to this rule in Docket No. R2000-1 and in the Commission's Opinion and Recommended Decision in that docket; these materials are incorporated by reference. A motion setting forth grounds for waiver of portions of Rule 54 accompanies this Request. See Motion of the United States Postal Service for Waiver of Certain Provisions of Rule 64(h). The criteria of sections 3622 and 3623 are addressed in the testimony of witness Scherer (USPS-T-1).

RULE: 54(a)(1)

INFORMATION REQUESTED:

This rule requires a description of any changes proposed by the Postal Service in the attribution procedures applied by the Commission in the most recent general rate proceeding in which its recommended rates or fees were adopted. The rule also requires that a Request proposing to change the cost attribution principles applied by the Commission in the most recent general rate proceeding in which its recommended rates were adopted include an alternative cost presentation satisfying Rule 54(h) that shows what the effect on the Postal Service's request would be if it did not propose changes in attribution principles.

This rule does not apply to this Request because, with the exception of a minor correction of an error in the Commission's workpapers, described in the testimony of witness Levine (USPS-T-2), the proposed changes do not include any changes to the cost attribution principles or procedures applied by the Commission in Docket No. R2000-1. In particular, witness Levine used the Commission's R2000-1 variabilities for mail processing costs in his calculations. This does not mean, however, that the Postal Service either agrees with or concedes the appropriateness of this or other Commission costing methodologies. The Postal Service reserves the right to use its costing methodologies in future proceedings. In the instant docket, Commission methodologies were used to enhance consistency between the existing rates and the proposed rate schedule changes.

RULE: 54(b)(1), (2), (3), (4)

INFORMATION REQUESTED:

These rules provide that each request must include schedules of the existing effective postage rates and fees for all postal services, and those rates and fees as proposed to be changed or adjusted. The schedules must:

- (1) show the full rates and, where applicable, the phased rates under section 3626 of title 39, U.S.C., and any proposed adjustment to such phased rates under section 3627 of title 39, U.S.C., indicated by the circumstances known at the time of the filing;
- (2) be presented in a summary fashion and a tariff-like form, specifying those rules, regulations and practices which establish the conditions of mailability and the standards of service. Specifically, they must address such functions as mail pickup and delivery, processing and other similar functions;
- (3) contain a statement of the degree of economic substitutability between the various classes and subclasses; and
- (4) be accompanied by an identification of all nonpostal services.

Attachment B contains the affected rate and fee schedules, with proposed additions underlined. Other information responsive to this rule is provided in response to Rule 64(b), incorporated here by reference.

RULE: 54(c)

INFORMATION REQUESTED:

This rule requires that each request identify the characteristics of the mailer and the recipient, and describe the contents of items mailed within each class and subclass.

Information pertinent to this rule is identified in response to Rule 64(c)(1), incorporated here by reference.

RULE: 54(d)

INFORMATION REQUESTED:

This rule requires that requests identify physical attributes of items mailed by class and subclass, including the shape, weight and distance.

Information pertinent to this rule is identified in the response to Rule 64(c)(2), incorporated here by reference.

RULE: 54(e)

INFORMATION REQUESTED:

To the extent that such information is not included within material supplied under Rule 54(b)(2), this rule requires that each request describe the "special service arrangements provided to, or requested or required of, mailers by the Postal Service which bear upon the cost of service or the value of the mail service to both the sender and the recipient, e.g., services relating to mailer preparations in excess of requirements specified by the [*Domestic Mail Manual*], pick-up and delivery, expedited or deferred processing, and other similar activities performed.

Information pertinent to this Rule is identified in the response to Rule 64(c)(3), incorporated here by reference.

RULE: 54(f)(1)

INFORMATION REQUESTED:

This rule requires that the Postal Service provide in each request "the total actual accrued costs during the most recent fiscal year for which they are reasonably available."

Actual accrued costs for FY 1999 are presented in the Cost and Revenue Analysis (CRA) Report on file with the Commission.

RULE: 54(f)(2)

INFORMATION REQUESTED:

This rule requires that the Postal Service provide the following in each request:

- (1) the Postal Service's estimated total accrued costs for the fiscal year in which the filing is made, assuming existing rates and fees;
- (2) the Postal Service's estimated total accrued costs for the fiscal year in which the filing is made, assuming the proposed rates and fees;
- (3) the Postal Service's estimated total accrued costs for a fiscal year beginning not more than 24 months subsequent to the filing date of the formal request, assuming existing rates and fees; and
- (4) the Postal Service's estimated total accrued costs for a fiscal year beginning not more than 24 months subsequent to the filing date of the formal request, assuming the proposed rates and fees.

The testimonies of witnesses Levine (USPS-T-2) and Scherer (USPS-T-1) provide some information responsive to this subsection with respect to presorted Priority Mail discounts. Other pertinent information is provided in the response to this Rule in Docket No. R2000-1 and in the Commissions Opinion and Recommended Decision in that docket, incorporated here by reference.

However, with respect to the effects of changes on total costs, a motion to waive the requirements of this rule, insofar as they apply to this proposal, is being filed with the Request. Because of the experimental nature of the service being proposed and its relatively small effect, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs, either in the present fiscal year or a "rollforward" analysis in a future test year.

RULE: 54(f)(2) (Methods and Procedures)

INFORMATION REQUESTED:

For the estimated total accrued costs specified in this provision, the rule requires an explanation of the methods and procedures used for the cost projections, including:

- an explanation of the projection of total volumes;
- an explanation of the effect of the projected volume levels on estimated total costs;
- specification of the cost savings which will be realized from gains and improvements in total productivity, indicating such factors as operational and technological advances and innovations;
- identification of abnormal costs which are expected to be incurred in the test year.

The testimonies of witnesses Levine (USPS-T-2) and Scherer (USPS-T-1) provide some information responsive to this subsection with respect to Presorted Priority Mail discounts. Other pertinent information is provided in the response to this Rule in Docket No. R2000-1 and in the Commission's Opinion and Recommended Decision in that docket, incorporated here by reference. However, with respect to the effects of changes on total costs and total volumes, a motion to waive the requirements of this rule, insofar as they apply to this proposal, is being filed with the Request. Because of the experimental nature of the service being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes, either in the present fiscal year or a "rollforward" analysis in a future test year.

RULE: 54(f)(3)(i) and (ii) (Operating Costs)

INFORMATION REQUESTED:

For the basic cost submissions required in Rule 54(f)(1) and (2), this rule requires a statement and explanation of:

- operating costs in detail as to their accounting and functional classifications;
- the cost amounts for depreciation on capital facilities and equipment, debt service, contingencies, and extraordinary or nonrecurring expenses.

The testimony of witness Levine (USPS-T-2) provides some information responsive to this subsection with respect to Presorted Priority Mail discounts. Other pertinent information is provided in the response to this Rule in Docket No. R2000-1 and the Commission's Opinion and Recommended Decision in that docket, incorporated here by reference. With respect to the effects of changes on operating and depreciation costs, however, a motion to waive the requirements of this rule, insofar as they apply to this proposal, is being filed with the Request. Because of the experimental nature of the service being proposed and its relatively small scope, the Postal Service has not prepared a full analysis of the effects on the Postal Service's operating and depreciation costs, either in the present fiscal year or a "rollforward" analysis in a future test year.

RULE: 54(f)(3)(iii) (Cost Assignment and Distribution)

INFORMATION REQUESTED:

For the basic cost submissions required in Rule 54(f)(1) and (2), this rule requires, assignment and distribution of costs to each of the functions comprising "the mail process." This presentation shall include:

- an itemization of costs by the major accounts as reflected by the Service's books of accounts for all cost segments;
- an itemization of costs by functions such as collection, acceptance, general overheads, etc.;
- an assignment and distribution of the costs by account, together with related mail volumes, for each function;
- an assignment and distribution of the costs by account, together with related mail volumes, to "such subfunctions within each category for which information is available or can be developed;
- an explanation of the method by which the costs by accounts are assigned and distributed to functions.

The testimony of witness Levine (USPS-T-2) provides some information responsive to this subsection with respect to Presorted Priority Mail discounts. Other pertinent information is provided in the response to this Rule in Docket No. R2000-1 and the Commission's Opinion and Recommended Decision in that docket, incorporated here by reference. With respect to the effects of changes on functional costs, however, a motion to waive the requirements of this rule, insofar as they apply to this proposal, is being filed with the Request. Because of the experimental nature of the service being proposed and its limited effect, the Postal Service has not prepared a full analysis of the Postal Service's functional costs, either in the present fiscal year or a "rollforward" analysis in a future test year.

RULE: 54(g)

INFORMATION REQUESTED:

This rule requires that the each request for changes in rates and fees provide, in a form consistent with the filing required by Rule 54(f), "the total actual accrued costs for each fiscal year since the last filing pursuant to this section."

Actual accrued costs for FY 1999 are presented in the Cost and Revenue Analysis (CRA) Report on file with the Commission.

RULE: 54(h)(1)

INFORMATION REQUESTED:

This rule requires the separation of actual and estimated total costs, for the fiscal years specified in Rule 54(f), as between postal services (including international mail) and nonpostal services. "The presentation shall show the methodology for separating postal costs as between postal services and nonpostal services, and shall be in sufficient detail to allow a determination that no nonpostal costs have been assigned or allocated to postal services."

Information pertinent to this subsection is provided in the response to this Rule in Docket No. R2000-1 and the Commission's Opinion and Recommended Decision in that docket, incorporated here by reference. However, with respect to the separation of postal costs between postal and nonpostal services, a motion to waive the requirements of this rule, insofar as they apply to this proposal, is being filed with the Request. Because of the experimental nature of the service being proposed and its relatively small scope and effect, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs, either in the present fiscal year or a "rollforward" analysis in a future test year.

RULE: 54(h)(2) and (3) (Separation of costs by functions)

INFORMATION REQUESTED:

For the actual and estimated total costs presented for the years specified in Rule 54(f), these rules require the costs to be separated as follows:

- those direct costs which can be attributed to each class of mail or type of mail service;
- those indirect costs which can be attributed to each class of mail or type of mail service;
- any other costs of the Service which can be reasonably assigned to each class of mail or type of mail service;
- any other costs of the Postal Service which cannot be attributed or reasonably assigned.

The methodology used to derive these costs is required to be set forth in detail.

The testimony of witness Levine (USPS-T-2) provides some information responsive to this subsection with respect to Presorted Priority Mail discounts. Other pertinent information is provided in the response to this Rule in Docket No. R2000-1 and the Commission's Opinion and Recommended Decision in that docket, incorporated here by reference. However, with respect to the effects of changes on total costs, a motion to waive the requirements of this rule, insofar as they apply to this proposal, is being filed with the Request. Because of the experimental nature of the service being proposed and its relatively small scope and effect, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs, either in the present fiscal year or a "rollforward" analysis in a future test year.

RULE: 54(h)(4), (12)

INFORMATION REQUESTED:

This rule applies to the costs identified in Rule 54(h)(2). It requires that these costs be separately attributed to mail classes, subclasses, and special services. It also requires identification of the methodology used in attribution and an analysis of the effect of costs on the following:

- volume;
- peaking patterns;
- priority of handling;
- mailer preparations;
- quality of service;
- the physical nature of the item mailed;
- expected gains in total productivity, indicating such factors as operational and technological advances and innovations;
- any other factor affecting costs.

The data relevant to the analyses of the effect on costs of these factors must also be provided.

The testimonies of witnesses Levine (USPS-T-2) and Scherer (USPS-T-1) provide some information responsive to this subsection with respect to Presorted Priority Mail discounts. Other pertinent information is provided in the response to this Rule in Docket No. R2000-1 and the Commission's Opinion and Recommended Decision in that docket, incorporated here by reference.

However, with respect to the effects of changes on total costs, a motion to waive the requirements of this rule, insofar as they apply to this proposal, is being filed with the Request. Because of the experimental nature of the service being

proposed and its relatively small scope and effect, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs, either in the present fiscal year or a "rollforward" analysis in a future test year.

RULE: 54(h)(5) – (h)(10) (“Roll-Forward” model)

INFORMATION REQUESTED:

These provisions generally specify particular items which must be included in the presentation of the process by which base year costs are rolled-forward to test-year costs, such as listings of the forecasting factors, piggyback factors, interim period workpapers, and an overall summary cost table. Rules 54(h)(6) and (7) require an explanation of the attributable cost final adjustments and the “other services” adjustments.

The testimonies of witnesses Levine (USPS-T-2) and Scherer (USPS-T-1) provide some information responsive to this subsection with respect to Presorted Priority Mail discounts. Other pertinent information is provided in the response to this Rule in Docket No. R2000-1 and the Commission’s Opinion and Recommended Decision in that docket, incorporated here by reference.

However, with respect to the effects of changes on total costs, a motion to waive the requirements of this rule, insofar as they apply to this proposal, is being filed with the Request. Because of the experimental nature of the service being proposed and its relatively small scope and effect, the Postal Service has not prepared a full analysis of the effects on the Postal Service’s total costs, either in the present fiscal year or a “rollforward” analysis in a future test year.

RULE: 54(h)(11) (Nonattributed costs)

INFORMATION REQUESTED:

This rule applies to costs that are identified as "nonattributed or unassigned" pursuant to Rule 54(h)(2). It requires an explanation as to why such costs cannot be attributed or assigned. It further requires the identification, to the extent possible, of all such costs which benefit more than one class of mail or type of service (but not all classes or types), together with the mail classes or types of services so benefitted.

The testimony of witness Levine (USPS-T-2) provides some information responsive to this subsection with respect to Presorted Priority Mail discounts. Other pertinent information is provided in the response to this Rule in Docket No. R2000-1 and the Commission's Opinion and Recommended Decision in that docket, incorporated here by reference. However, with respect to the effects of changes on total costs, a motion to waive the requirements of this rule, insofar as they apply to this proposal, is being filed with the Request. Because of the experimental nature of the service being proposed and its relatively small effect, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs, either in the present fiscal year or a "rollforward" analysis in a future test year.

RULE: 54(i)

INFORMATION REQUESTED:

This rule requires a statement of the criteria employed by the Postal Service in construction of the proposed rate schedule. The statement must include:

- the identification of the relationship between the revenues derived from the rates and fees for a particular class and subclass of mail or service, and the costs attributed and assigned to that class or subclass of service;
- the identification of the procedures and methods used to apportion (to postal services) that part of the total revenue requirement which is in excess of costs attributed;
- such other studies, information and data relevant to the criteria established by section 3622 of title 39, U.S.C., with appropriate explanations as will assist the Commission in determining whether or not the proposed rates or fees are in accordance with such criteria.

The testimony of witness Scherer (USPS-T-1) in this docket provides some information responsive to this subsection with respect to Presorted Priority Mail discounts. Other pertinent information is provided in response to this Rule in Docket No. R2000-1 and in the Commission's Opinion and Recommended Decision in that docket, incorporated here by reference. However, with respect to the effects of changes on total revenues and total costs, a motion to waive the requirements of this Rule, insofar as they apply to this proposal, has been filed with the Request. Because of the experimental nature of the service being proposed and its limited effect, the Postal Service has not prepared a full analysis of its impact on total costs in the present Fiscal Year or in a "rollforward analysis" for a future test year.

RULE: 54(j)(1), (2), (3), and (4)

INFORMATION REQUESTED:

These rules require specification of revenues for certain fiscal years, including the test year. Revenues must be submitted for:

- FY 1999, assuming prefiling (existing) rates and fees;
- FY 2000, assuming prefiling (existing) rates and fees;
- the portions of FY 2001-03 that are contemporaneous with the experimental period, assuming prefiling (existing) rates and fees;
- the portions of FY 2001-03 that are contemporaneous with the experimental period, assuming proposed rates and fees.

The actual and estimated revenues for these years must be shown in total and separately for each class and subclass of mail and postal service and for all other sources from which the Postal Service collects revenues.

Each revenue presentation must be supported by identification of the methods and procedures employed.

The testimony of witness Scherer (USPS-T-1) provides some information responsive to this subsection with respect to Presorted Priority Mail discounts. Other pertinent information is provided in the response to this Rule in Docket No. R2000-1 and the Commission's Opinion and Recommended Decision in that docket, incorporated here by reference. However, with respect to the effect of the changes on total revenues, a motion to waive the requirements of this rule, insofar as they apply to this proposal, is being filed with the Request. Because of the experimental nature of the service being proposed and its relatively small scope and effect, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total revenues, either in the present fiscal year or a "rollforward" analysis in a future test year.

RULE: 54(j)(5) (volume estimates)

INFORMATION REQUESTED:

This rule requires that the Postal Service present for each class and subclass of mail and special service:

- for each postal quarter beginning with the first quarter of the most recent complete fiscal year and ending one year beyond the last quarter of the test year, actual or estimated mail volumes at the prefilled (existing) rates and fees;
- for each postal quarter beginning with the quarter in which the rates are assumed to become effective and ending one year beyond the last quarter of the test year, the estimated volume of mail assuming the effectiveness of the proposed rates.

The testimony of witness Scherer (USPS-T-1) provides some information responsive to this subsection with respect to Presorted Priority Mail discounts. Other pertinent information is provided in the response to this Rule in Docket No. R2000-1 and the Commission's Opinion and Recommended Decision in that docket, incorporated here by reference. However, with respect to the effect of the changes on total volumes, a motion to waive the requirements of this rule, insofar as they apply to this proposal, is being filed with the Request. Because of the experimental nature of the service being proposed and its relatively small scope and effect, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total volumes, either in the present fiscal year or a "rollforward" analysis in a future test year.

RULE: 54(j)(5), (6), (7) (Demand study – methodology and documentation)

INFORMATION REQUESTED:

These rules require that the volume estimates provided pursuant to Rule 54(j)(5) must be derived from an econometric demand study relating postal volumes to their economic and noneconomic determinants, including postal rates, discounts and fees, personal income, business conditions, competitive and complementary postal services, competitive and complementary nonpostal activities, population, trend, seasonal patterns and other factors. The study must be furnished with the request, and any departure from the assumptions and specifications in the demand study made in estimating volumes of any class or subclass of mail must be explained.

For volume and revenue estimates, and subject to Rule 54(a)(2), the Postal Service must provide:

- a detailed explanation of the methodology employed to forecast volumes for each class and subclass of mail and postal service. Representative derivations of these forecasts from the econometric demand study must be presented in detail for two major mail classes, showing each intermediate value or factor employed. For remaining classes and subclasses of mail, such derivations may be summarizing, except where their derivations depart from the representative methods presented;
- a detailed explanation of the methodology employed to forecast changes in revenues for each class and subclass of mail and postal service resulting from changes in rates and fees;
- a computer implementation of the methodology employed to forecast volumes and revenues for each class and subclass of mail and postal service. The computer implementation must comply with Rule 31(k)(3), and must be able to compute forecasts of volumes and revenues compatible with those specified in Rules 54(j)(2), (3), and (5) for
 - any set of rates and fees within a reasonable range of the prefiled (existing) and the proposed rates,
 - any date of implementation within the range spanned by the assumed date of implementation and the start of the test year,
 - alternative forecasts of the economic determinants of postal volumes, other than postal rates and fees, and

- alternative values of any parameters with assigned values that are based upon unverifiable judgments.

Subject to Rule 54(a)(2), the Postal Service must make available at the offices of the Commission, in a form that can be read directly by a standard digital computer, the following:

- all of the input files and programs needed to replicate the required econometric demand study;
- any input files and programs employed to derive a price index for any class or subclass of mail or postal service from postal rates, discounts, and fees;
- any input files and programs used to prepare data for the required econometric demand study.

The testimony of witness Scherer (USPS-T-1) provides some information pertinent to this subsection with respect to Presorted Priority Mail discounts. Other pertinent information is provided in the response to this Rule in Docket No. R2000-1 and the Commission's Opinion and Recommended Decision in that docket, incorporated here by reference. With respect to a demand study, however, a motion to waive the requirements of this rule, insofar as they apply to this proposal, is being filed with the Request. Because of the experimental nature of the service being proposed and its relatively small scope and effect, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total volumes, either in the present fiscal year or a "rollforward" analysis in a future test year.

RULE: 54(k)

INFORMATION REQUESTED:

This rule requests that the Postal Service provide, for the two fiscal years immediately preceding the year in which the request is filed, the Balance Sheet, the Statement of Income and Expense, basic statistical information, and the Statement of Income and Expense by budget category. This includes data with respect to the following:

- (1) the Balance Sheet and a supporting schedule for each item that appears thereon;
- (2) the Statement of Income and Expense and a supporting schedule for each item appearing thereon;
- (3) as appropriate, statistical data with respect to revenue, pieces (by physical attributes, showing separately amounts of mail identified as stamped, metered, and imprinted, or other), weight, distance, postal employees (number, total payroll, productivity, etc.), postal space, post offices (number, class, etc.), and any other pertinent factors which have been utilized in the development of the proposed rate schedule; and
- (4) the Statement of Income and Expense by cost segment.

In addition, this rule requires that the Postal Service provide a reconciliation of the budgetary information with the actual accrued costs for the most recent fiscal year. If the fiscal information for the immediately preceding fiscal year is not fully available on the date of filing, the Postal Service is required to make a preliminary or pro forma submittal, and file an updated report once the fiscal information is completed.

Financial information for FY 1999 and FY 2000, the most recent available, is included with Attachment D to this Request. In addition, Cost and Revenue Analysis reports for FY 1998 and FY 1999 were filed with the Commission in Docket No. R2000-1. See, e.g., Docket No. R2000-1, USPS-LR-I-275.

RULE: 54(l)

INFORMATION REQUESTED:

This rule requires that the Postal Service provide:

- (1) a statement that shows for each class and subclass of mail and postal service the relevant billing determinants (the volume of mail related to each rate element in determining revenues) separately for the current rates and the proposed rates. The proposed changes in rate design and the related adjustments of billing determinants should be explained in detail.
- (2) for third-class bulk mail, this rule requires that every formal request must set forth separately for regular and preferred, by presort level, the base year volume by ounce increment for each shape (letter-size, flat, irregular parcels, parcels).

To the extent that information on the billing determinants relating to Presorted Priority Mail rate is available, it is provided in the testimony of witness Scherer (USPS-T-1). Billing determinants for FY 1999, the most recent available, were filed with the Commission on March 31, 2000. In all other respects, a motion to waive the requirements of this rule, insofar as they apply to this proposal, is being filed with the Request.

RULE: 54(m)

INFORMATION REQUESTED:

This rule requests a statement, which can be in workpaper form, presenting detailed calculations of continuing appropriations according to 39 U.S.C. § 2401(c) and phasing appropriations under 39 U.S.C. § 3626, any proposed adjustment to such phased rates under 39 U.S.C. § 3627 indicated by circumstances known at the time of filing. Calculation of all the phased rates for the entire applicable phasing period should be explained in detail.

Pertinent information is provided in the response to this rule in Docket No. R2000-1, and in the Commission's Opinion and Recommended Decision in that docket, incorporated here by reference.

RULE: 54(n)

INFORMATION REQUESTED:

This rule requests identification of any performance goals which have been established for the classes and subclasses of mail. The Request must identify the achieved levels of service for those classes and subclasses of mail and mail services for which performance goals have been set.

Pertinent information is provided in the response to this rule in Docket No. R2000-1 and in the Commission's Opinion and Recommended Decision in that docket, incorporated here by reference.

RULE: 54(o)

INFORMATION REQUESTED:

This rule sets forth the requirements for filing workpapers with the Commission, including their format, and the number to be filed.

Calculations of costs and revenues with respect to Presorted Priority Mail rate are in the testimonies and exhibits of witnesses Levine (USPS-T-2) and Scherer (USPS-T-1) in the instant docket. The Postal Service is not filing workpapers with this Request.

RULE: 54(p)

INFORMATION REQUESTED:

This rule requests one or more certifications stating that the cost *statements and supporting data submitted as part of the formal request*, as well as the accompanying workpapers, which purport to reflect the books of the Postal Service, accurately set forth the results shown by such books. The requested certification is to be signed by one or more representatives of the Postal Service authorized to make such certification.

The requested certification is submitted as Attachment C to the instant Request.

RULE: 54(q)

INFORMATION REQUESTED:

This rule requests an opinion from an independent public accountant to the extent and as required by 39 U.S.C. § 2008(e).

An opinion from the independent accounting firm of Ernst & Young covering Fiscal Years 1999 and 2000 Audited Financial Statement is included with Attachment D to this Request.

In addition to the information required by Rules 54 and 64, Rule 67 establishes specific requirements for experiments. Each requirement is listed below, followed by the response.

RULE: 67(b)(4)

INFORMATION REQUESTED:

The desired duration of the experiment as indicated by the Postal Service in its request and, specifically, in its proposed Domestic Mail Classification Schedule language.

Proposed classification provisions, including the desired duration of the experiment, are provided in Attachment A to the instant Request.